CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE

STATISTICAL LIBRARY
MAR 23 1937
OUT TO BE TAKEN AWAY

ANNUAL REPORT
OF
SAFEWAY STORES
INCORPORATED

YEAR ENDED
DECEMBER 31st
1·9·3·6

BOARD
q658.7414
Sa7I

SAFEWAY STORES
INCORPORATED
Geographical Distribution of Stores
British Columbia 105 stores
Alberta 45 stores
Saskatchewan 36 stores
Canada — 258 stores
Manitoba 66 stores
Ontario 6 stores
Washington 215 stores
Montana 48 stores
Oregon 163 stores
Idaho 38 stores
Wyoming 26 stores
Nevada 11 stores
Utah 44 stores
Colorado 193 stores
Nebraska 90 stores
Iowa 8 stores
California 1296 stores
Kansas 67 stores
Missouri 66 stores
Arizona 58 stores
New Mexico 28 stores
Oklahoma 114 stores
Arkansas 27 stores
Texas 155 stores
Maryland 77 stores
Washington, D. C. 250 stores
Virginia 115 stores
Total number of stores as of December 31, 1936 3347 stores

Annual Report of President to Stockholders

The report of the operations of your company and its subsidiaries for the year 1936, including Consolidated Balance Sheet, Profit and Loss Account, and Surplus Accounts, is submitted herewith.

Sales and Profits

Net sales in 1936 amounted to $346,178,061.20, an increase of $51,480,461.39, or 17.47%, as compared with 1935.

The consolidated net income for the year 1936, after income taxes, taxes on undistributed earnings and adequate depreciation, but before preferred dividends, amounted to $4,157,252.53, as compared with $3,409,775.45 in 1935. Preferred dividends amounting to $935,434.25 were paid during the year. Dividend requirements on the average outstanding seven percent and six percent preferred stock during the year were earned 4.44 times. After the payment of preferred dividends, the earnings of the company applicable to common stock were $3,221,818.28, or at the rate of $4.03 per share on 798,924 shares, the average number of common shares outstanding during the year.

Operations

During the year a total of 258 stores were closed. In these stores were located 184 meat markets, which of necessity were also closed. In accordance with the company's regular policy, the expense of closing all stores vacated in 1936, as well as the amounts expended for rent and for settlement of leasehold liabilities respecting such stores, were charged against current earnings. All fixtures transferred from closed stores were carefully appraised and only the current value of usable or salable fixtures was carried forward. Leasehold improvements on closed stores were charged off against current earnings, while such improvements on continuing stores are being charged off on an amortized basis.

During the year 200 stores and 366 markets have been added. Eight warehouses and one creamery were also added during the year. The policy of endeavoring to secure leasehold terms which do not impose speculative liability on your company has been continued.

The average number of stores and markets in operation during the past eleven years, as well as the warehouses, bakeries and creameries in operation at the close of each year, are shown below:

Years	Sales	Grocery Stores	Meat Markets Located in Grocery Stores	Warehouses	Bakeries	Creameries
1926	$ 50,536,514	673	120	4	3	....
1927	69,573,685	840	177	6	3	....
1928	103,303,598	1,191	377	15	8	....
1929	213,496,254	2,340	1,110	44	15	2
1930	219,284,707	2,675	1,489	44	17	2
1931	246,783,998	3,264	1,854	62	21	4
1932	229,173,468	3,411	2,066	66	21	4
1933	220,156,842	3,306	2,051	66	21	4
1934	242,966,383	3,228	2,085	71	21	4
1935	294,697,600	3,330	2,354	79	21	5
1936	346,178,061	3,370	2,490	87	21	6

As at December 31, 1936, 3,347 stores, in which were located 2,585 markets, were in operation.

Pursuant to the authorization given by the stockholders at the last annual meeting, your directors have caused two corporate reorganization and liquidation plans to be completed whereby the Texas wholesale subsidiary company and the California wholesale subsidiary company were liquidated after their respective assets and businesses had been taken over by a third wholesale subsidiary company which was previously in existence. These two subsidiaries were eliminated in the interests of efficiency and economy and for the purpose of simplifying the corporate setup of your company and its subsidiaries. Your directors are carefully considering further simplification of a similar character.

Financial Position

The total net worth of the company and its subsidiaries as at December 31, 1936, according to the attached Consolidated Balance Sheet, was $46,759,491.01. Increased sales, increased outlets, and rising food prices, accounted for the increase in inventories and customers' accounts receivable, which made it necessary for the company to borrow from its banks on current loans. In September, 1936, your board of directors considered that it would be good policy to extend its bank loans over a greater period of time and therefore borrowed from its commercial banks a total of $10,000,000.00, of which $2,000,000.00 falls due in September, 1937, $2,000,000.00 in September, 1938, and $6,000,000.00 in September, 1939.

The total current assets amounted to $43,710,985.92, while total liabilities, including all one, two and three year notes payable to banks amounted to $19,436,724.31, or an excess of current assets over total liabilities of $24,274,261.61. The ratio of current assets to current liabilities (as stated on the Consolidated Balance Sheet) was 3.82 to 1.

In accordance with our regular custom, we indicate below the capital and surplus of the company, the book value of the preferred and common stocks, and the earnings and dividends paid in prior years. The number of shares outstanding at the end of each year is used in determining book values and the average number of shares outstanding during the year in computing earnings. Effect is also given in prior years to the five for one split-up made in October, 1928:

	Capital and Surplus	Net Assets per share of Preferred Stock	Book Value per share of Common Stock	Dividends paid per share on Common Stock	Net Earnings per share on Common Stock
1926	$ 4,346,154	$148	$ 6.20	------	$4.89
1927	8,094,842	190	14.80	$1.90	5.80
1928	26,664,305	307	30.45	2.30	8.12
1929	37,843,911	360	42.44	3.00	9.02
1930	36,780,959	355	41.55	5.00	4.82
1931	44,964,345	283	36.34	5.00	6.34
1932	44,485,616	285	36.12	4.50	4.22
1933	45,061,281	297	37.43	3.00	4.11
1934	45,095,479	306	37.99	3.00	3.61
1935	44,872,007	314	38.27	2.50	3.07
1936	46,759,491	301	39.18	*3.50	4.03

Reserves

The reserve for inventory adjustment in the amount of $350,000.00 established out of the earnings of 1931 was credited back to Earned Surplus, in 1936.

The California Referendum

In last year's annual report mention was made of the fact that in November, 1936, the people of California would vote to reject or approve a special chain store tax bill which if approved, would have involved certain subsidiaries of your company in an annual expense of approximately $650,000.00.

---

*On December 15, 1936, a dividend of $2.00 per share was paid to common stockholders in five percent preferred stock. Of the $2.00 in par value of preferred stock comprising this dividend, fifty cents represented the usual quarterly dividend (which except for tax reasons would have been made payable on January 1, 1937) and the remaining $1.50 was an extra dividend. As explained in a letter to the stockholders dated November 9, 1936, the dividend was paid in preferred stock for two reasons, viz., the increase in volume of sales which made it desirable to retain a substantial part of the Company's earnings as additional working capital, and the heavy surtax on undistributed earnings imposed by the Revenue Act of 1936.

An energetic effort was made to present the facts showing the economic advantages to the public of the chain store method of distribution. The burden of presentation to the public of the disadvantages of such an unwise and unjust law fell to a large extent on your Company, and its share of the expense of this campaign, which was very considerable, has been included in the operating and administrative expenses for the year.

This situation in California presented the first opportunity for chain stores to present the facts to the voters in a complete and thorough manner. As a result of the referendum held on November 3, 1936, this discriminatory legislation was repudiated by popular vote. The total vote cast on this tax was 2,437,221, compared with the presidential vote of 2,712,342. The voters repudiated the tax by a majority of 302,335. There was a majority against the tax in 57 out of 58 counties.

Special Taxes

The subsidiaries of your company are now subject to special chain store taxes in the States of Maryland, Colorado, Idaho, Montana, and Iowa.

A special chain store tax measure became effective in the State of Texas in January, 1936, involving an annual expense of approximately $88,000.00. The collection of this tax has been enjoined in an action brought to determine the validity of the measure, but the liability for 1936 has been included in the Balance Sheet.

The gross revenue or receipts tax measures in the States of New Mexico and Iowa, which were contested in the courts in 1935 and 1936, have been held invalid by the courts.

By amendment to the California Retail Sales Tax Act in 1935, the rate of tax effective July 1, 1935, was changed from 2% to 3% and the sale of food products was exempted. If such exemption be declared unconstitutional as contended in certain litigation, but which our counsel deem unlikely, the rate of 2% would probably apply to all retail sales made after July 1, 1935 including sales of food products, and subsidiaries of your Company might be subject to additional assessments on sales made in California after such date.

Personnel

The Safeway Employees' Association continues to be of great benefit to the personnel. The Association now comprises over 19,000 members and the total life insurance in force aggregates $45,088,945.50.

The Company's historical use of the merit system in measuring promotion and remuneration of store and sales personnel has been continued, as well as the method of paying employees in managerial positions a share of the earnings of the unit, district or division.

The Company's contribution to the welfare of its employees under the Federal and State Social Security Acts for the year 1936 aggregated approximately $275,000.00. It is estimated that this amount in 1937 will be approximately $800,000.00.

I wish to take this opportunity to express publicly my personal appreciation of the loyal efforts of the employees.

L. A. WARREN,
President.

SAFEWAY STORES, INCORPORATED (A Maryland Corporation), AND SUBSIDIARIES
Consolidated Balance Sheet As At December 31, 1936

ASSETS

Current Assets:		
Cash in Banks and on Hand		$ 8,093,239.46
Accounts Receivable—Trade, Less Reserve $146,686.89		2,957,701.26
Government Accounts Receivable and State, County and Municipal Warrants		1,223,177.90
Sundry Accounts Receivable		690,941.67
Merchandise Inventories—at Lower of Cost or Market		30,745,925.63
Total Current Assets		43,710,985.92
Prepaid Expenses:		
Rents, Taxes and Licenses	$ 229,462.03	
Insurance	188,575.64	
Miscellaneous Supplies, etc.	218,672.17	636,709.84
Investments and Advances:		
Security Investments—at Cost	264,390.68	
Indebtedness of Affiliate	188,975.17	
Other Investments (including Balances in Closed Banks and Securities Acquired therefor, Less Reserve $174,607.60)	192,576.02	645,941.87
Fixed Assets—at Cost:		
Land	2,994,707.98	
Buildings	10,113,283.84	
Store and Warehouse Fixtures and Equipment and Leasehold Improvements	22,959,165.50	
Automotive Equipment	2,397,578.50	
	38,464,735.82	
Less Reserve for Depreciation	16,732,200.13	21,732,535.69
Total		$ 66,726,173.32

LIABILITIES

Current Liabilities:		
Notes Payable to Banks—Due September 24, 1937		$ 2,000,000.00
Accounts Payable		5,907,731.43
State Sales Taxes		214,199.24
Accrued Expenses		1,951,708.81
Dividends Payable		229,269.50
Reserve for Federal Income and Surtax and Canadian Income Tax		1,133,815.33
Total Current Liabilities		11,436,724.31
Notes Payable to Banks—Due September 24, 1938	$ 2,000,000.00	
Notes Payable to Banks—Due September 24, 1939	6,000,000.00	8,000,000.00
Minority Interest in Canadian Subsidiary		529,958.00
Capital and Surplus:		
Preferred 7% Cumulative Stock, Par Value $100.00 per share, Redeemable at $110.00: Authorized and Outstanding—83,997 Shares	8,399,700.00	
Preferred 6% Cumulative Stock, Par Value $100.00 per Share, Redeemable at $110.00: Authorized and Outstanding—55,091 Shares	5,509,100.00	
Preferred 5% Cumulative Stock, Par Value $100.00 per Share, Redeemable at $110.00: Authorized 51,235 Shares; Outstanding 15,853 Shares	1,585,300.00	
Common Stock without Par Value: Authorized 1,500,000 Shares; Outstanding 798,984 Shares—(Note 1)	9,795,648.13	
Paid-In Surplus	11,347,013.29	
Earned Surplus	10,168,601.91	
	46,805,363.33	
Less—390 Shares 6% Preferred and 62 Shares Common Stock in Treasury—at Cost	45,872.32	46,759,491.01
Contingent Liabilities—Guarantee under Repurchase Agreement $65,000.00		
Total		$ 66,726,173.32

Note 1—After deducting 21,000 Shares held in Treasury originally acquired for issue to Executives under options, the terms of which now preclude them from being exercised.
Note 2—The Assets and Liabilities of the Canadian Subsidiaries have been included at par of exchange.
Note 3—Federal and Canadian Income Tax Returns for the year 1935 are subject to final review. Lawsuits incidental to the Companies' operations are reasonably covered by insurance.

SAFEWAY STORES, INCORPORATED (A Maryland Corporation), AND SUBSIDIARIES

Consolidated Profit and Loss Account for the Year Ended December 31, 1936

Sales (Net)		$346,178,061.20
Cost of Sales		278,195,614.52
Gross Profit		67,982,446.68
Operating and Administration Expenses	$ 58,932,632.10	
Provision for Depreciation	3,590,544.52	62,523,176.62
Net Operating Profit		5,459,270.06
Other Income		79,658.94
		5,538,929.00
Income Deductions		334,037.20
		5,204,891.80
Provision for Federal and Canadian Income Tax (including $64,217.31 Surtax on Undistributed Profits)		1,014,119.77
		4,190,772.03
Deduct Proportion Accruing to Minority Stockholders in Canadian Subsidiary		33,519.50
Net Income		$ 4,157,252.53

Earned Surplus Account for the Year Ended December 31, 1936

Balance as at December 31, 1935			$ 9,392,932.00
Net Income for Year Ended December 31, 1936			4,157,252.53
Reserve for Inventory Adjustment, Established in 1931 out of Earnings now Transferred to Earned Surplus			350,000.00
			13,900,184.53
Deduct:			
Cash Dividends on Preferred Stocks		$ 935,434.25	
Dividends on Common Stock:			
Cash	$1,210,848.37		
5% Preferred Stock	1,585,300.00	2,796,148.37	3,731,582.62
Balance as at December 31, 1936			$ 10,168,601.91

Paid-in Surplus Account for the Year Ended December 31, 1936

Balance as at December 31, 1935	$ 11,388,600.91
Deduct:	
Premium on Preferred Stocks Purchased for Retirement	41,587.62
Balance as at December 31, 1936	$ 11,347,013.29

To the Board of Directors of
Safeway Stores, Incorporated:

We have made an examination of the Consolidated Balance Sheet of Safeway Stores, Incorporated (a Maryland Corporation) and its subsidiary Companies as at December 31, 1936, and of the Consolidated Profit and Loss and Surplus Accounts for the year 1936. In connection therewith, we examined or tested accounting records of the Companies and other supporting evidence and obtained information and explanations from officers and employees of the Companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying Consolidated Balance Sheet and related Consolidated Profit and Loss and Surplus Accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the Companies during the year under review, their consolidated position at December 31, 1936, and the results of their operations for the year.

San Francisco, California.
February 20, 1937.

PEAT, MARWICK, MITCHELL & CO.

Safeway Stores, Incorporated

(A Maryland Corporation)

Executive Officers

M. B. SKAGGS . . . . . Chairman of the Board
L. A. WARREN . . . . . President and Treasurer
LAWRENCE GILES . . Vice-President, Secretary and Controller

Directors

M. B. SKAGGS — LAWRENCE GILES
L. A. WARREN — MILTON L. SELBY
DRUMMOND WILDE

Executive Offices

5th and Virginia Street . . . . . Reno, Nevada

Transfer Agent

The Chase National Bank of the City of New York . New York, N. Y.

Registrar

City Bank Farmers Trust Company . . . . New York, N. Y.

Auditors

Peat, Marwick, Mitchell & Co.